

Message Text

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SUBJECT: ABBOTT LABORATORIES SIGNS \$25 MILLING CONTRACT TO SUPPLY
SOVIETS WITH EQUIPMENT AND TECHNOLOGY TO PRODUCE SIMILAC BABY
FORMULA

REF: MOSCOW 14465

1. SUMMARY: ABBOTT LABORATORIES CONCLUDED CONTRACT NEGOTIATIONS
DECEMBER 8 WITH SOVIET FTO TEKHNOPROMIMPORT TO SUPPLY EQUIP-
MENT AND TECHNOLOGY FOR NEW PLANT WHICH WILL PRODUCE POWDERED
BABY MILK BASED ON SIMILAC FORMULA IN U.S. TOTAL VALUE OF
CONTRACT IS IN EXCESS OF DOLLARS 25 MILLION, BROKEN DOWN BETWEEN
TECHNOLOGY (5.4 MILLION) AND EQUIPMENT (APPROX. \$20 MILLION). PLANT,
TARGETED FOR START-UP IN 1980, WILL BE LOCATED NEAR ODESSA AND
OPERATED BY SOVIET MINISTRY OF MEAT AND DAIRY. FINANCIAL
TERMS OF CONTRACT ARE OUTLINED HEREIN. IN PRESS STATEMENT
TO BE RELEASED DECEMBER 8, ABBOTT LABS GIVES PARTIAL CREDIT
TO U.S. DEPARTMENT OF COMMERCE FOR ITS ROLE IN FACILITATING
CONTACTS WITH HIGH-LEVEL SOVIETS INVOLVED IN PROJECT. END SUMMARY

2. BACKGROUND: ABBOTT LABS HAD BEEN INVOLVED IN TECHNICAL
NEGOTIATIONS WITH SOVIET MINISTRIES OF HEALTH AND MEAT AND
DAIRY INDUSTRIES FOR MORE THAN A YEAR CONCERNING PROJECT TO
PROVIDE USSR WITH TECHNOLOGY AND EQUIPMENT FOR PRODUCTION OF
INFANT BABY FORMULA, KNOWN AS SIMILAC IN U.S. WE REPORTED
(REFTEL) THAT COMMERCIAL NEGOTIATING STAGE REACHED LAST AUGUST
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HAD RESULTED IN IMPASSE WITH SOVIETS STICKING AT TOTAL PRICE

FOR PACKAGE OF AROUND DOLLARS 17 MILLION, SLIGHTLY OVER HALF ABBOTT LABS' ASKING PRICE OF DOLLARS 33 MILLION. LOGJAM WAS BROKEN DURING PAST TEN DAYS DURING WHICH ABBOTT LAB PRESIDENT, E.J. LEDDER, ENGAGED IN MARATHON BARGAINING SESSIONS WITH SOVIET END-USERS AND FTO. AS REPORTED REFTEL, SOVIETS HAD BEEN TESTING WESTERN BABY FORMULAS FOR SEVERAL YEARS LOOKING FOR WAYS OF DRAMATICALLY IMPROVING DOMESTIC SUPPLY OF THIS PRODUCT. SIMILAC HAD COME OUT ON TOP IN SOVIET SURVEY, ACCORDING TO ABBOTT LAB OFFICIALS AND THIS APPARENTLY LED SOVIETS TO RESUME TALKS BROKEN OFF LAST AUGUST AND AGREE ON FINAL FIGURE WHICH, IN EFFECT, MET ABBOTT LABS HALF-WAY.

3. GENERAL TERMS: PLANT, WHICH WILL BE LOCATED NEAR ODESSA IN PLACE CALLED BALTA, IS TO BEGIN OPERATIONS IN 1980 AND HAVE A CAPACITY OF 14,000 TONS OF SIMILAC POWDER PER YEAR. NO BUY-BACK PROVISIONS ARE INVOLVED IN CONTRACT, NOR WILL SIMILAC TRADE-MARK GO WITH DEAL. UNDER TERMS OF CONTRACT ABBOTT LABS WILL BE REQUIRED TO MAINTAIN QUALITY OF PLANT OUTPUT AT U.S. STANDARDS FOR TWO YEARS. AFTER THAT QUALITY CONTROL WILL BE SOVIETS' PROBLEM.

4. FINANCIAL TERMS: ABBOTT LABS' EXECUTIVE V.P. FOR FINANCE B.H. SEMLER, TOLD COMATT DECEMBER 5 THAT FOLLOWING PAYMENT TERMS WERE AGREED TO:

--RE SALE OF TECHNOLOGY (INCLUDING SOFTWARE, TRAINING OF PERSONNEL, ETC.) -- SOVIETS AGREED TO PAY DOLLARS 5.4 MILLION IN SEVEN INSTALLMENTS SPREAD OUT OVER 48 MONTHS FROM DATE OF CONTRACT. (LAST SOVIET OFFER IN AUGUST HAD BEEN DOLLARS 2.5 MILLION, AS OPPOSED TO ABBOTT LABS' COUNTEROFFER OF DOLLAR 7.5 MILLION.) --RE SALE OF EQUIPMENT --ABBOTT LABS DELIVERY PERIOD IS TO RUN FROM OCTOBER 1, 1978, TO MARCH 31, 1979. SOVIETS WILL PAY FIFTY PERCENT OF APPROXIMATELY DOLLARS 20 MILLION EQUIPMENT PRICE ON JANUARY 1, 1979; AND REMAINDER ONE YEAR LATER, OR ON JANUARY 1, 1980 - TEN MONTHS FROM DATE OF FINAL DELIVERY OF EQUIPMENT. (AN INTERESTING FEATURE OF CONTRACT IS THAT SOVIETS AGREED TO PAY ABBOTT LABS INTEREST OF 7.5 PERCENT FROM ACTUAL DATE OF DELIVERY OF EACH PIECE OF EQUIPMENT TO DATE OF FINAL PAYMENT. THIS IS AS LIMITED OFFICIAL USE

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HIGH AN OPEN INTEREST RATE FIGURE WE HAVE SEEN SOVIETS WILLING TO PAY IN DEALS WITH WESTERN FIRMS.) FMC WILL BE MAJOR SUB-CONTRACTOR FOR EQUIPMENT AND INSTALLATION.

5. FACTORS IN NEGOTIATIONS: SEMLER ATTRIBUTED SUCCESS TO PRES. LEDDER'S PAINSTAKING CARE AND PATIENCE IN ESTABLISHING "PYRAMID OF CONTACTS" AT HIGHEST LEVELS IN END-USER MINISTRIES SO THAT

"PRESSURE COULD BE APPLIED BELOW" ON FTO TEKHNOPROMIMPORT. SEMLER SAID LEDDER NEVER MISSED OPPORTUNITY TO GET TO KNOW PERSONALLY MINISTER OF MEAT AND DAIRY INDUSTRY, S.F. ANTONOV, (WHO HE INVITED TO VISIT ABBOTT LAB FACILITIES IN U.S. IN 1975), AND MINISTER OF HEALTH, B.V. PETROVSKIY, AND LATTER'S DEPUTY, WHO IT TURNS OUT, RAISED TWO OF HER CHILDREN ON SIMILAC* SEMLER ALSO GAVE HIGH MARKS TO SOVIET NEGOTIATING TEAM WHO, ALTHOUGH OBSTINATE BARGAINERS, "ASKED ALL THE RIGHT QUESTIONS" AND IMPRESSED ABBOTT LAB OFFICIALS WITH THEIR GRASP OF TECHNICAL AND COMMERCIAL DETAIL. SEMLER ALSO FELT THAT FAVORABLE ATMOSPHERE CREATED IN PARTY BY FIRM'S AGENT, BETTINA PARKER, ASSOCIATES, ALSO PLAYED IMPORTANT ROLE IN FINAL OUTCOME. LASTLY, FINAL PARAGRAPH OF ABBOTT LAB PRESS RELEASE TO BE DISTRIBUTED AT SIGNING CEREMONY ON EVENING OF DECEMBER 8 STATES THAT "U.S.-U.S.S.R. TRADE COUNCIL...ALONG WITH U.S. DEPARTMENT OF COMMERCE WAS INSTRUMENTAL IN SCHEDULING MEETINGS WITH APPROPRIATE HIGH LEVEL OFFICIALS IN CONNECTION WITH ABBOTT PROJECT." COPIES OF PRESS RELEASE BEING POUCHED EUR/SOV (EDGAR) AND BEWT/OEWTD (MURRIN).

6. COMMENT: AFTER A RATHER LENGTHY DRY SPELL IN LARGE-SCALE ACTIVITY BETWEEN SOVIETS AND U.S. FIRMS, IT IS GRATIFYING TO SEE A DEAL OF THESE PROPORTIONS COME THROUGH. WE WOULD NOT WANT TO READ TOO MUCH INTO SIGNIFICANCE OF THIS CONTRACT FOR FUTURE OF OTHER ONGOING NEGOTIATIONS BY U.S. COMPANIES IN U.S.S.R., ESPECIALLY SINCE ABBOTT LAB REPRESENTATIVES WERE ADVISED BY SOVIETS THAT THIS PROJECT WAS FIRMLY EMBEDDED IN CURRENT FIVE YEAR PLAN; NONETHELESS, ITS SUCCESSFUL CONCLUSION JUST NOW MAY BE TAKEN, AT A MINIMUM, AS A PLUS IN OUR BILATERAL TRADE RELATIONS. MATLOCK

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